

FEATURE ARTICLE

RECENT TRENDS IN SINGAPORE'S RETAIL SECTOR

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INTRODUCTION

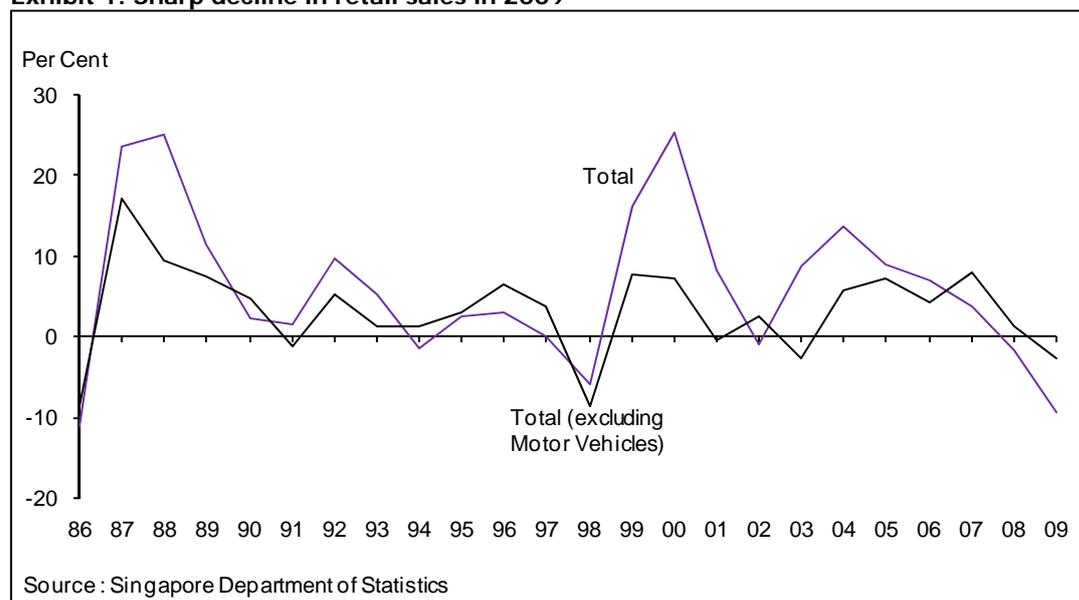
This article examines the recent trends in the retail sector, as Singapore's economy recovers from the worst of the global economic crisis. It also looks at how the retail landscape is shaping up in view of the recent surge in new shopping malls.

RETAIL SALES PERFORMANCE

Retail sales plummeted in 2009...

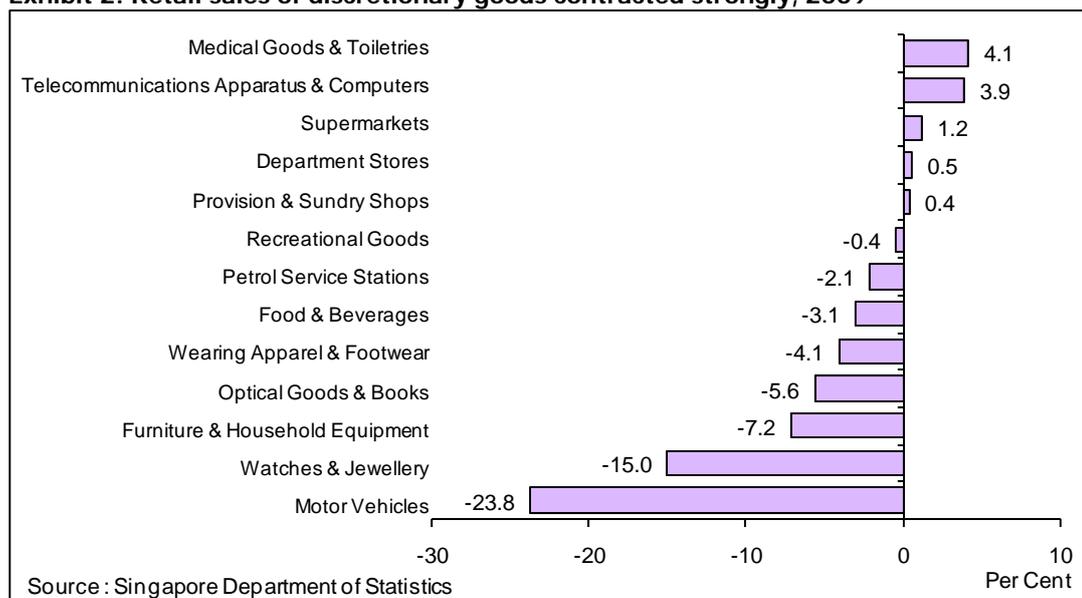
2008 and 2009 were difficult years for Singapore's retail sector. The retail sales index (RSI) in constant prices (or retail sales volume) fell by 1.7 per cent and 9.3 per cent respectively in those two years as a result of the global economic crisis. The decline in 2009 was the worst since the 11 per cent plunge during the 1986 recession. Excluding motor vehicle sales, retail sales volume still saw negative growth of 2.7 per cent in 2009, the same magnitude of decline that was seen during the SARS crisis in 2003 ([Exhibit 1](#)).

Exhibit 1: Sharp decline in retail sales in 2009



In particular, the retail sales of discretionary products suffered large declines. These include sales of motor vehicles (-24 per cent), watches & jewellery (-15 per cent), furniture & household equipment (-7.2 per cent), optical goods & books (-5.6 per cent), and wearing apparel & footwear (-4.1 per cent). In contrast, sales of non-discretionary goods continued to grow despite weak consumer sentiments. These retail segments include medical goods & toiletries (4.1 per cent), supermarkets (1.2 per cent), department stores (0.5 per cent), and provision & sundry shops (0.4 per cent) ([Exhibit 2](#)).

Exhibit 2: Retail sales of discretionary goods contracted strongly, 2009



...but showed a modest improvement in the first half of 2010

With the economic recovery, retail sales volume returned to positive growth of 1.1 per cent year-on-year in the first quarter of 2010 before declining by 5.7 per cent in the second quarter of the year due to lower sales of motor vehicles (Exhibit 3). If motor vehicles are excluded, the retail sales volume grew by a larger 7.0 per cent year-on-year in the first quarter and another 4.8 per cent in the second quarter of 2010. The better performance was largely a result of the recovery in both domestic demand and visitor arrivals which began towards the end of 2009.¹ The low base in the first half of 2009 also helped to pull the numbers higher. On a seasonally adjusted quarter-on-quarter basis, retail sales volume (excluding motor vehicles) grew 2.9 per cent in the first quarter of 2010. However, its growth subsequently dropped to a modest 0.4 per cent in the second quarter of 2010 showing that the growth momentum is still weak (Exhibit 4).

Exhibit 3: Retail sales (ex motor vehicles) turned positive in 4Q 2009 (year-on-year growth)

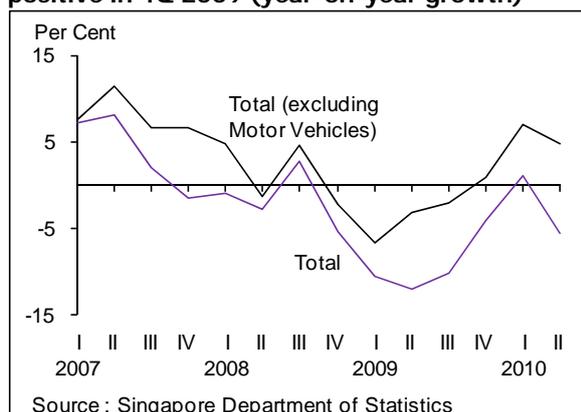
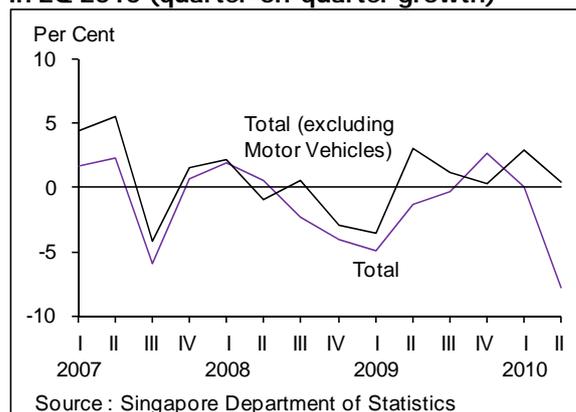


Exhibit 4: Retail sales growth momentum continued in 2Q 2010 (quarter-on-quarter growth)



¹ Visitor arrivals contracted for most of 2009 before growing on a year-on-year basis in November (8.5 per cent) and December (9.5 per cent). Growth accelerated further in the first six months of 2010 to 23 per cent year-on-year, with 5.5 million visitor arrivals to Singapore.

In a sign of improving consumer sentiments, we are beginning to see a turnaround in the retail sales of discretionary products. Year-on-year growth rates in the sales of furniture & household equipment, watches & jewellery, wearing apparel & footwear, telecommunications apparatus & computers, optical goods & books, and recreational goods turned positive in the first half of 2010 after negative growth in 2009 (Exhibit 5). Sales of non-discretionary goods, which were resilient throughout the downturn, have generally remained stable in the first half of 2010 (Exhibit 6).

Exhibit 5: Retail sales of discretionary goods recovered strongly in 2010

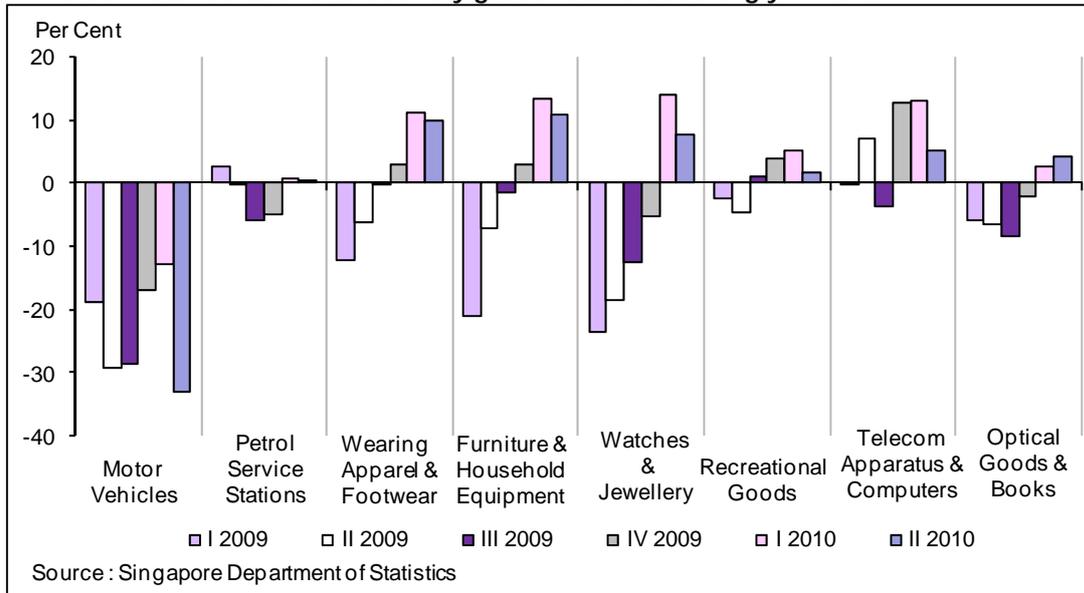
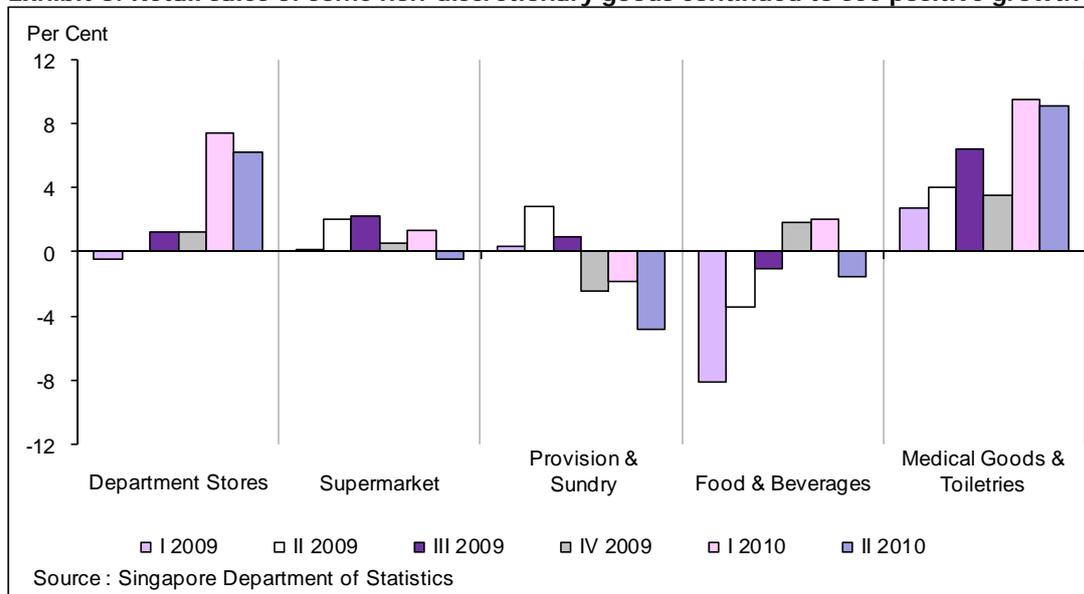


Exhibit 6: Retail sales of some non-discretionary goods continued to see positive growth



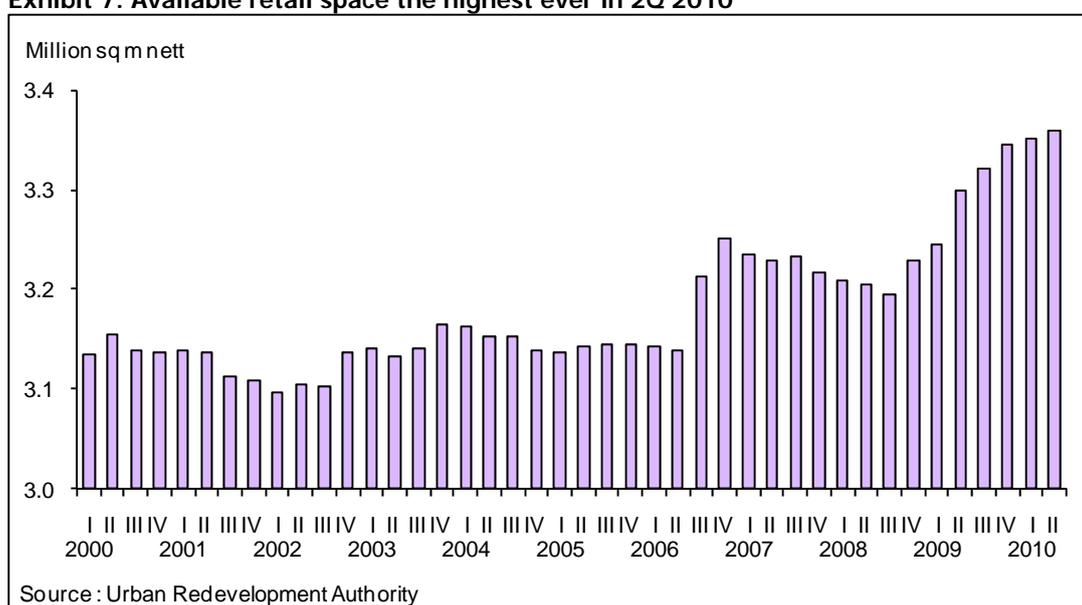
On balance, although there has been a pick-up in retail sales volume in recent quarters, the recovery is still at a nascent stage, supported by favourable base effects over the same period last year. Whether the growth in retail sales can pick up pace in the second half of the year depends on the strength of the recovery in the domestic and external economies as well as visitor arrivals growth.

RETAIL SPACE PERFORMANCE

Significant expansion in private sector retail space, especially in Orchard Planning Area...

In 2009, apart from dismal retail sales arising from a weak economy, the retail sector also saw a massive increase in retail space. For the full year, the total stock of available retail space increased by 116,000 square metres (nett), 4.5 times more than the average yearly increase in the preceding 15 years. As of the second quarter of 2010, the total amount of available retail space in Singapore was 3.36 million square metres (nett), the highest available stock on record ([Exhibit 7](#)).

Exhibit 7: Available retail space the highest ever in 2Q 2010



The increase in the stock of retail space in 2009 was due entirely to a net increase in private sector retail space. The latter rose from 2.08 million square metres in end-2008 to 2.24 million square metres in end-2009, even as public sector retail space declined from 1.15 million square metres to 1.11 million square metres over the same period ([Exhibit 8](#)). Private and public retail space were little changed at 2.26 and 1.10 million square metres respectively in the second quarter of 2010.

Most of the increase in private retail space occurred in the Orchard Planning Area (89,000 square metres or 77 per cent of the total increase in available retail stock), with the opening of new malls like Orchard Central, ION Orchard and 313@Somerset. This additional supply brought the stock of private retail space in the Orchard Planning Area to a total of 449,000 square metres by end-2009. As a result, the Orchard Planning Area now accounts for 20 per cent of total private retail space island-wide, up from the 17 per cent in end-2008 ([Exhibit 9](#)).

Exhibit 8: Increase in retail space occurred mainly in the private sector

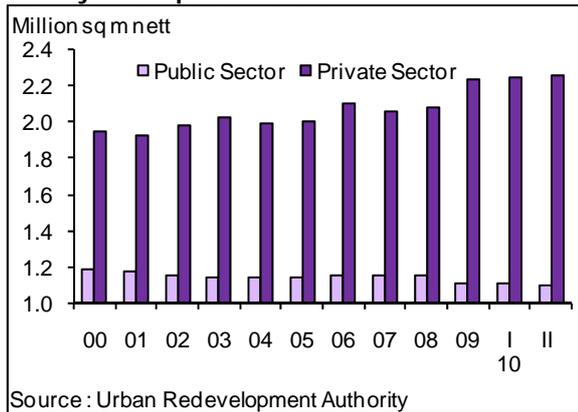
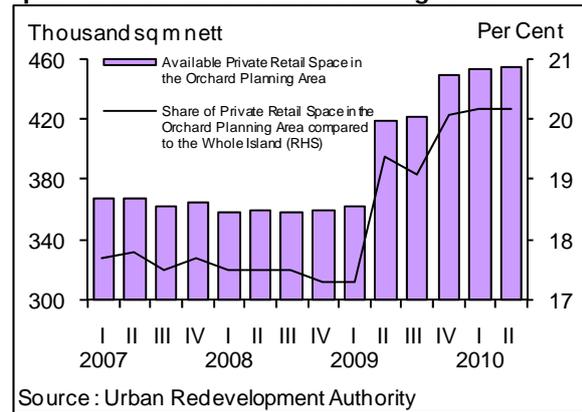


Exhibit 9: Most of the increase in private retail space was in the Orchard Planning Area

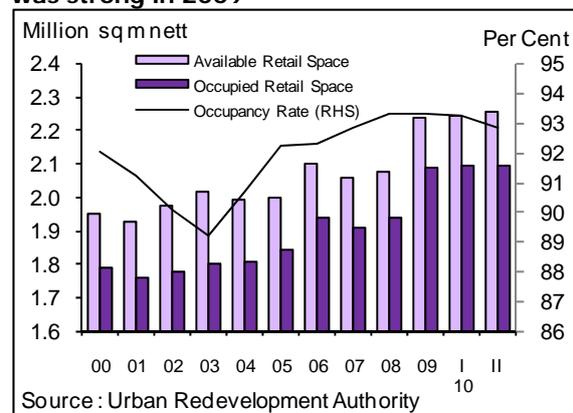


However, occupancy rates for private retail space remained high...

Despite the decline in retail sales in 2009, the annual take-up of private retail space jumped to 148,000 square metres, more than five times higher than the year before and almost matching the supply of new private retail space of 158,000 square metres. As a result, the average occupancy rate for private retail space remained at a high of 93.3 per cent in 2009 before reaching 92.8 per cent by the second quarter of 2010 (Exhibit 10). Similarly, the island-wide occupancy rate for private and public retail space as a whole climbed from 93.8 per cent in end-2008 to 94.3 per cent in end-2009 before stabilising at around 94.0 per cent by the first half of 2010.

There could be two reasons why the occupancy rate remained high in 2009 despite a severe economic downturn and a large increase in supply of space. First, the new supply of space in prime shopping areas attracted a sizeable number of global brands to our shores (e.g., Uniqlo and Victoria’s Secret). It also provided the opportunity for existing brands to expand and open new stores to increase their footprint and attract more customers. Second, as we will discuss below, rentals have remained soft, which might have helped to support the demand for new space.

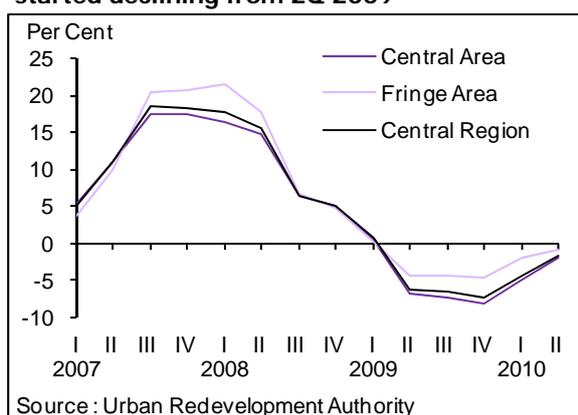
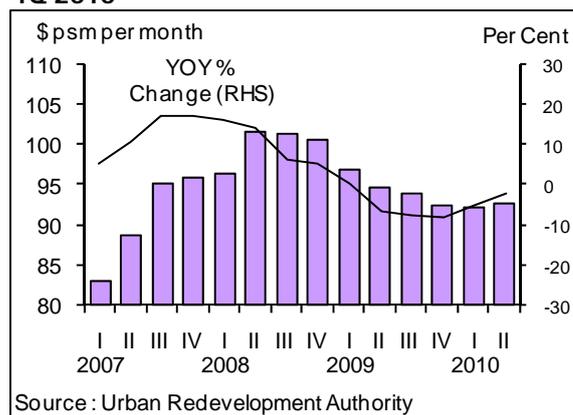
Exhibit 10: Private sector retail space demand was strong in 2009



Despite the high occupancy rates, shop rentals fell throughout 2009...

Despite the high occupancy rates, rentals fell throughout most of 2009 and the first half of 2010. Compared to the preceding year, URA’s Rental Index of private sector shop space in the Central Region fell by 7.4 per cent in the last quarter of 2009, with retail rents in the Central Area (comprising Orchard and Downtown Core) declining by a higher rate of 8.2 per cent (Exhibit 11). Although retail rentals continued to fall in the first half of 2010, the pace of the decline moderated significantly. By the second quarter of 2010, the retail rental index in the Central Region and Central Area only fell by 1.8 per cent and 2.1 per cent year-on-year respectively. In level terms, the median rents of private retail space in the Central Area dropped from the recent peak of \$102 per square metre per month (psm pm) in the second quarter of 2008 to \$93 psm pm in the second quarter of 2010 (Exhibit 12).²

² The Central Region comprises the Central Area (i.e., Downtown Core, Orchard, and the Rest of Central Area) and the Fringe Area.

Exhibit 11: Rental index of private shop space started declining from 2Q 2009**Exhibit 12: Median rents continued to fall in 1Q 2010**

Retail rents could have fallen because the healthy supply of new retail space, along with the uncertain economic outlook, would have motivated retailers to negotiate lower rents with their landlords. The decline in retail rents looks set to bottom out as the economic recovery gathers pace and consumer confidence rebounds.

OUTLOOK, OPPORTUNITIES AND CHALLENGES

Barring any unforeseen external shocks, the prospects for the retail sector remain bright in the coming quarters. Growth in the sector will be supported by demand and supply side factors, such as the anticipated rise in tourist traffic following the opening of the two Integrated Resorts (IRs), the improvement in local consumer confidence, and the strong pipeline of retail projects.

Visitor arrivals expected to be on target...

The global economic recovery will stimulate tourist arrivals and increase their retail spending. In the first half of 2010, visitor arrivals grew by a strong 23 per cent year-on-year, to 5.5 million, as tourism demand recovered. The opening of the IRs alongside the global economic recovery will see visitor arrivals reach a targeted 11.5 million to 12.5 million in 2010. This marks a 19 to 29 per cent growth over the previous year. In addition, tourism receipts are estimated to reach \$17.5 to \$18.5 billion, growing 41 to 49 per cent over 2009.

Strong pipeline of retail projects...

Based on estimates by the Urban Redevelopment Authority, there is a total supply of 428,000 square metres (gross floor area) of retail space from projects in the pipeline, from both Government and private land sources. Of the total pipeline supply of retail space, about 140,000 square metres of space is expected to be completed by the end of 2010.³ Besides new malls in the IRs and Orchard Planning Area, the new retail space also includes suburban malls (e.g., nex at Serangoon Central) and subterranean retail space (e.g., basement link between Raffles City and the Esplanade MRT station). While the suburban malls will benefit consumers in the heartlands, the new malls in the Orchard and Marina Bay areas will add diversity to our retail landscape and attract more domestic and tourist spending.

³ Release of 2nd Quarter 2010 real estate statistics, Urban Redevelopment Authority News Release, 23 July 2010.

However, retailers have to watch out for higher operating costs...

With the economic recovery, cost pressures are likely to rise. For instance, labour costs are expected to increase on the back of a tightening labour market. Likewise, rentals may face upward pressures, although the healthy supply of space coming on-stream is likely to moderate any increase. Other costs such as utilities, and advertising and promotions costs could pick up as well. Nonetheless, while rising costs could hurt retailers, most of them should be able to bear with the increase in costs as long as retail sales continue to improve in tandem with the economic recovery.

In the longer term, retailers have to contend with the challenges brought about by a more competitive retail landscape...

In the longer term, retailers will have to meet the challenges that come with a more competitive retail landscape. Two key trends that bear watching in this regard are the impact from the opening of the IRs and the rise in the number of heartland malls.

Impact of the IRs – The Resorts World at Sentosa and Marina Bay Sands IRs are expected to contribute around 30,000 square metres and 74,000 square metres of retail space respectively when fully open. While it is still too early to establish the impact of the IRs on existing retailers, some commentators have highlighted that the IRs will not be in direct competition with retailers like those in Orchard Road because their general product offerings and targeted consumer segments are very different. For example, retailers in the Marina Bay Sands IR target the MICE (Meetings, Incentive Travel, Conventions and Exhibitions) segment whereas Orchard Road retailers target the traditional shoppers. They argue that the distinct characteristics of both precincts would in fact help to enhance Singapore's attractiveness as a city by providing more retail options to visitors.

Growth of Heartland Malls – Although much emphasis has been placed on adding more buzz to the prime shopping areas in Singapore in recent years, the heartlanders have not been neglected either. New suburban malls that have opened recently include Tampines One and City Square Mall. Others, such as nex, JCube and Clementi Mall, are slated to open in one to two years. These suburban malls serve the needs of residents in nearby housing estates, and tend to be relatively less affected by business cycles. This is in contrast to downtown malls whose earnings are dependent to some extent on tourist arrivals, which are in turn sensitive to economic cycles and other disruptions (e.g., disease outbreaks).⁴

The rise of the heartland malls presents both challenges and opportunities to existing retailers. Some retailers in town (e.g., Orchard Road and Marina Bay) may be concerned that the new suburban malls will lead to more local consumers choosing to shop in their neighbourhood rather than in town. Others see the heartland malls as opportunities to expand their reach to more consumers, and have opened up branches in these malls.

In this more competitive retail landscape, it is critical for mall owners and retailers to differentiate their products and the shopping experience offered to shoppers in order to thrive. In this regard, owners of some existing malls have taken the lead to re-furbish and rejuvenate their properties. Some landlords and mall managers have also stepped up advertising and promotion efforts for their malls, improved the tenant mix, and helped tenants explore ways to improve sales.

⁴ "Rise of the malls in the suburbs", The Straits Times, 16 May 2010.

CONCLUSION

With the economic recovery, revival in tourist arrivals and improved consumer confidence, the retail sector is showing signs of recovery. Retail sales, excluding motor vehicles, have enjoyed positive growth since the first quarter of 2010. Barring major disruptions to the economy, retail sales are likely to continue to grow for the rest of the year. However, with the massive injection of new retail space in 2009 and more expected in 2010 and beyond, the retail landscape has also become more competitive. Retailers will have to constantly seek opportunities to differentiate themselves to improve sales and revenue in this more competitive landscape.

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